2010 Forecast Report

GRUBB & ELLIS
From Insight to Results

NORTHERN CALIFORNIA/CENTRAL VALLEY

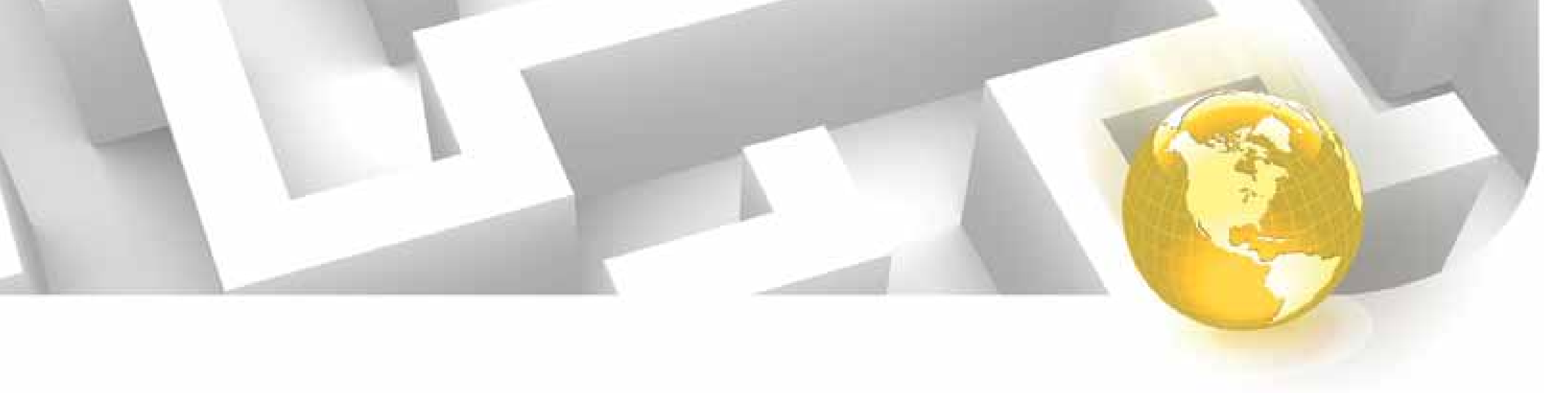
Office

Industrial

Retail

Investment

Land



Northern California/Central Valley

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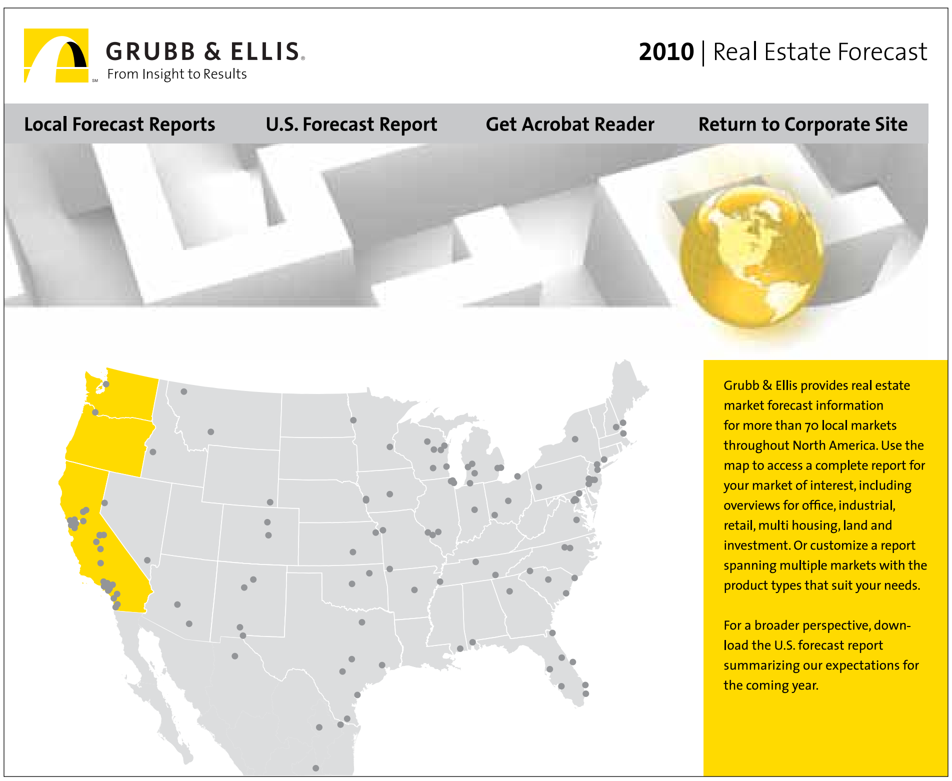

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GRUBB & ELLIS
From Insight to Results

Dear Clients and Colleagues:

While everyone likes a challenge, in 2009 our industry has had more than its fair share of obstacles to maneuver. The U.S. and global economic conditions have not made it easy for anyone in the commercial real estate arena. Occupier demand plunged in all categories of commercial real estate last year. The fact that construction levels were moderate leading into the recession, while a mitigating factor, has not been enough to protect the industry from rising vacancy rates and falling rental rates that rival the deep cycle of the early 1990s.

Unlike that earlier cycle, commercial real estate was not a primary cause of the current downturn. Rather, it was the reckless use of credit, starting with subprime residential loans and spreading throughout the financial system and across the globe. Commercial real estate, whose value depends on leverage, was swept up in the credit bubble and the ensuing crash.

In the past few months, with the credit markets stabilizing, commercial real estate has developed a somewhat unfair reputation as "the next shoe to drop." No doubt there is pain ahead, as losses are realized and the industry is recapitalized at lower values, but this transition is highly unlikely to repeat the disruption caused by the housing crisis for reasons we discuss in our analysis. The re-pricing of assets is generating opportunities unseen since the early 1990s, notably for tenants and investors with cash.

The economy is improving thanks in part to quick actions by governments around the world. Recovery will be slow, however, particularly in the labor market. Because tenant demand for commercial real estate derives from job growth, the leasing market will struggle in 2010. Tenants will have the upper hand in negotiations with landlords, resulting in flexible leases and hefty incentive packages. A shortage of debt capital will continue to affect the investment market, but there is a growing pool of equity capital forming to acquire property assets at bargain prices.

While we expect real estate sales to pick up during the year, banks have delayed selling their REO properties in order to protect their capital reserves. As a result, distressed assets will likely come to market over the next two, three or even four years. CMBS will provide opportunities for investors to acquire distressed debt in 2010, but the structure of the original agreements often makes the process more arduous than buying a property or a whole loan from a bank.

As we work through this maze together, we are focused on offering solutions that ensure each of our client's real estate is being optimally utilized regardless of market conditions. Our 2010 forecast may encourage you to re-evaluate your real estate investment strategy, consider a new market for doing business or investigate alternative space options. We're ready to discuss your needs at any time and are committed to delivering integrated real estate solutions that meet your business objectives. We'll help you uncover opportunities that exist today – and together prepare for the future.

Sincerely,

Jack Van Berkel
President, Real Estate Services

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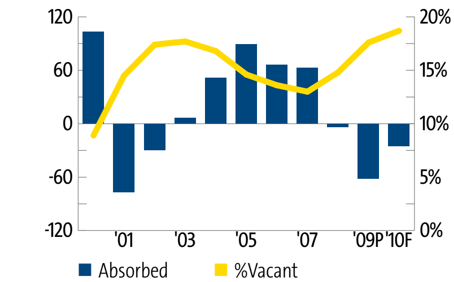
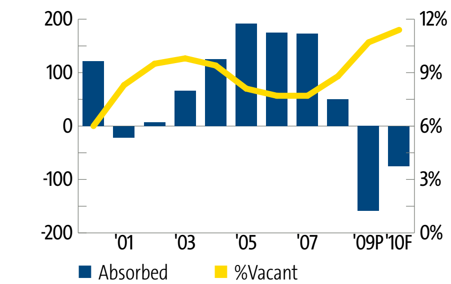
U.S. Office Vacancy and Absorption
Year-End (in Millions of SF)



Source: Grubb & Ellis

U.S. Industrial Vacancy and Absorption
Year-End (in Millions of SF)



Source: Grubb & Ellis

Office and Industrial Review and Forecast
Year-End

Office Market	2009 Actual	2010 Forecast
Vacancy rate	17.6%	18.7%
Class A rental rate [1]	$30.81	$29.27
Class B rental rate [1]	$22.93	$22.01
Net absorption	–62MSF	–25MSF
Space completed	49MSF	25MSF
Industrial Market		
Vacancy rate	10.7%	11.4%
Warehouse/dist. rental rate [2]	$4.26	$4.04
General industrial rental rate [2]	$5.26	$5.15
R&D/flex rental rate [2]	$9.32	$8.86
Net absorption	–158MSF	–75MSF
Space completed	60MSF	15MSF

[1] Asking rate per square foot per year full service

[2] Asking rate per square foot per year triple net

Source: Grubb & Ellis

It won't feel like a classic recovery.

2009: Averting Disaster

The Great Recession, the worst downturn since the Great Depression, most likely passed into history last fall. From its beginning in December 2007 through October 2009, the recession destroyed 7.3 million payroll jobs, but that estimate will be revised upward by approximately 824,000 in February when the Bureau of Labor Statistics benchmarks its data to state unemployment insurance tax records, as it does annually. With further losses anticipated through 2010, the final damage could approach 9 million jobs eliminated, or about 6 to 7 percent of total employment. That would make this labor market downturn worse than all 10 of the other post-World War II recessions, more than double the average employment loss of 2.7 percent.

The recession pushed vacancy rates higher, rental rates lower, absorption into the red and construction starts toward zero across all product types. Retailers downsized or postponed expansion plans, slicing demand for retail and industrial space. Falling global trade hurt demand for industrial space, particularly in import-dependent markets. Job losses in the financial services and professional and business services sectors pushed office absorption deep into the red. Even the unflappable apartment market was hurt when new graduates couldn't find work and young adults were laid off. The only subsector showing some resilience was medical office and healthcare properties. Conditions were even worse in the investment market where transaction volume slowed to subsistence levels. The average commercial property sales price, based on repeat sales (however few), fell approximately 40 percent from its 2007 peak.

It could have been worse, perhaps much worse. "Depression 2.0," a contemporary version of what the world endured in the 1930s, was on the table from late 2008 through early 2009. Although reasonable people may disagree, it appears that the epic rescue measures undertaken by the government – two stimulus packages, TARP and a host of lending programs at the Federal Reserve – helped pull the global economy back from the brink.

2010: The Aftermath

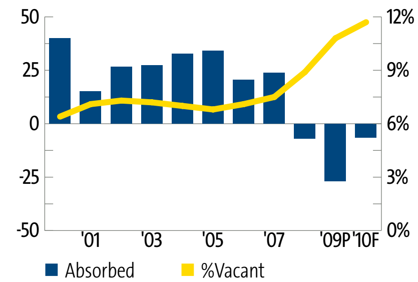
As the recession ebbs, discussion has turned to the shape of the recovery, with letters of the alphabet being the most popular descriptors. The possibilities are framed by the optimistic scenario of a brisk rebound (a "V") and the pessimistic scenario of a double-dip recession or zero growth following a stimulus-fueled bounce (a "W"). In between are weak but sustainable recoveries of varying lengths – a "U" depicting a jobless period of moderate length, and an "L" where the weakness lasts longer, perhaps much longer as occurred in Japan during the 1990s.

We believe a U-shaped recovery is most likely, with the labor market bottoming in the second half of 2010 and sustained job growth returning in 2011. The labor market is unlikely to recoup the 8 to 9 million lost jobs until 2014 or 2015. Inflation will not be an issue in 2010 but could become a problem down the road unless the government takes steps to control its debt. A little inflation could burnish real estate's long-dormant reputation as an inflation hedge.

National
Overview

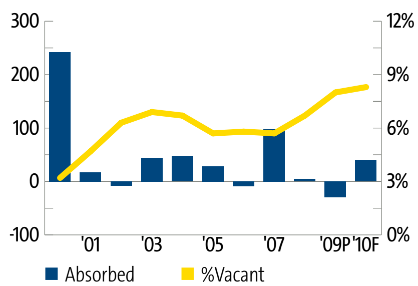
continued

U.S. Retail Vacancy and Absorption
Year-End (in Millions of SF)



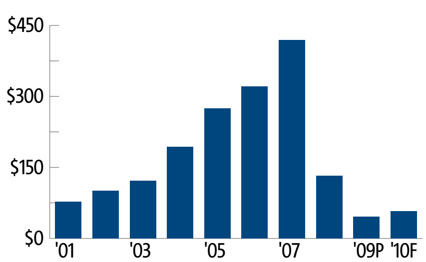
Source: Reis, Grubb & Ellis

U.S. Apartment Vacancy and Absorption
Year-End (in Thousands of Units)



Source: Reis, Grubb & Ellis

U.S. Commercial Property Sales
In Billions



Source: Real Capital Analytics, Grubb & Ellis

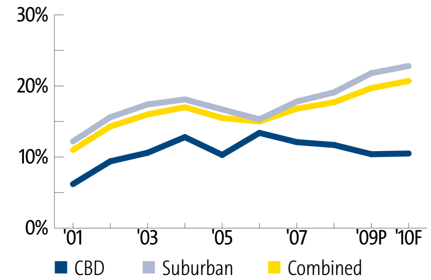
Expect the four core property types to recover in the following sequence:

1. *Multi Housing:* Early in the downturn, apartments benefited from the stream of foreclosed homeowners seeking a place to live. But the growing wave of foreclosures increased the supply of shadow units – unsold condominiums and houses being offered for rent. Job growth is required for a robust recovery. Longer term, apartments will benefit from the return of homeownership rates to pre-bubble levels (if not below) and growth of the 20 to 29 age cohort as the boomers' kids move out on their own.
2. *Industrial:* The recession dealt a blow to the drivers of demand for industrial space – retail sales, logistics, global trade and manufacturing. Expect leasing market conditions to bottom out by year-end as these drivers register modest rebounds.
3. *Retail:* The crystal ball is cloudiest for this property category. Was this recession just another cyclical downturn, or are there secular forces at work that will permanently alter tenant demand for retail space? Bubble-era spending, inflated by unsustainable housing prices and a flood of credit, will not return, and the savings rate will keep rising. These changes may be part of the wallpaper in a couple of years – that is, part of the new normal operating environment for retailers and their customers.
4. *Office:* The shadow space inventory may be higher in this downturn because job layoffs, implemented so swiftly following "Lehman Brothers weekend," have outrun tenants' ability to shed unneeded space. Expect the vacancy rate to peak in the first half of 2011 and rents to bottom in the second half of 2011 followed by a multi-year return to equilibrium. Vacancy is likely to set a modern-day record by the end of 2010.

In the investment arena, we anticipate transactions to increase 20 to 30 percent in 2010 compared with last year's artificially low levels. This is likely to be the start of a multi-year recapitalization process for commercial real estate where banks, CMBS servicers and other lenders finally write down and sell a steady river of distressed assets. Prices, already down 40 percent from their peaks, may decline another 10 percent as buyers finally get in the game. Anecdotes suggest that capitalization rates for apartment and medical office properties actually fell slightly late in 2009 as credit market panic abated, so prices may be finding a floor.

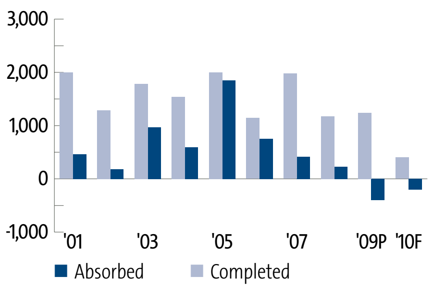
Sacramento
Office

Vacancy Rate
Year-End



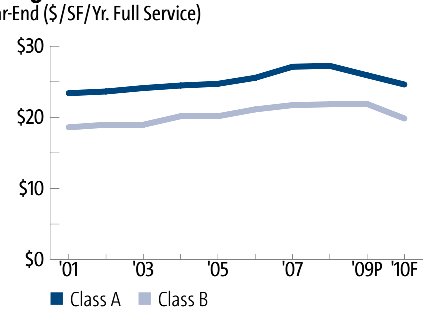
Source: Grubb & Ellis

Completions vs. Absorption
Year-End (in Thousands of SF)



Source: Grubb & Ellis

Asking Rental Rates
Year-End ($/SF/Yr. Full Service)



Source: Grubb & Ellis

The state of California is the region's most significant market driver, causing both prospective and existing landlords to stand up and take notice.

A slowing in the rate of job losses during the last quarter of 2009 was both a quantifiable and welcomed sign. Other evidence supporting the end of the Great Recession is still difficult to obtain. While in no way diminishing the relevance of national job growth, the region has quite simply not yet seen the growth necessary to sustain new demand for office space. Therefore, based on job losses alone, the construction projects completed during the year could only exert upward pressure on vacancy. Of the speculative construction completed in 2009, roughly 60 percent is still vacant due to insufficient demand. It stands to reason, therefore, that the office market's full recovery will not be achieved in 2010, as positive job growth for the region is not forecast until very late in the year, at best.

Office tenants' collective malaise, coupled with their lack of confidence in the economy, resulted in anemic growth in 2009. While there are categories of office tenants who are actively seeking space — private schools, medical users and the state and federal governments, the growth by these users did not overcome constriction by others, resulting in negative net absorption for 2009. Look for the impact of these tenant types to re-emerge in greater strength and volume when the economy improves.

The only regional tenant exhibiting a measurably growing and healthy appetite is the state of California. The Department of General Services continues to solicit office space for expanding state agencies in virtually every submarket. The Department of Corrections and Rehabilitation has announced several small requirements while still actively seeking their original, very large base of operations. The Department of Justice recently announced the need for almost 100,000 square feet, and the office of the Chief Information Officer is seeking a large space as well. In addition to posting new requirements, the state has launched an ambitious audit and review of their existing leases. The resulting negotiations could land state agencies the most favorable rental rates available this decade. Wary landlords, in no position to chance losing their state agency tenants, are acquiescing to the blend-and-extend renewal program.

Free rent, relocation allowances, tenant improvement dollars and extend-and-blends are all trends expected to continue in 2010. While asking rates will not dramatically decrease during the year, net effective rates on executed leases will continue to trend downward.

Key Leasing Transactions
2009

Lessee	Lessor	Property	Submarket	Size (SF)
U.S. Army Corps of Engineers	Rubicon GSA I Sacramento	1325 J Street *R*	Downtown	227,000
Sutter Health	Separovich Domich Real Estate	1625 Stockton Boulevard	East Sacramento	141,000
Electronic Data Systems Corp.	Unitrust	3215 Prospect Park Drive *R*	Highway 50	101,000
Numonyx	Evergreen Company	2235/2255 Iron Point Road	Folsom	96,000
Volcano Corporation	GKII Rancho Cordova LLC	2870 Kilgore Road	Highway 50	76,000

(R) = Renewal
Source: Grubb & Ellis

Sacramento
Industrial

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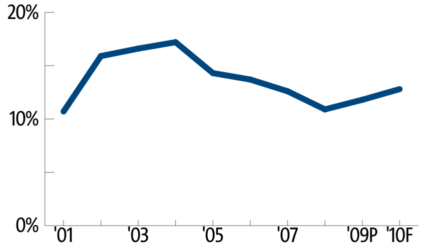
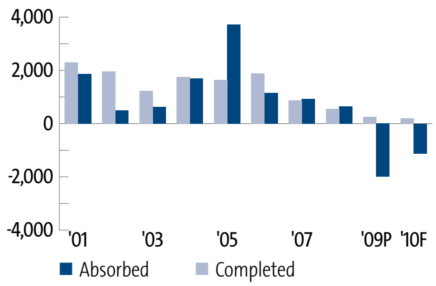
Vacancy Rate
All Product Types, Year-End



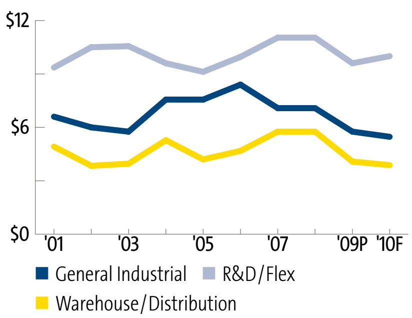
Source: Grubb & Ellis

Completions vs. Absorption
Year-End (in Thousands of SF)



Source: Grubb & Ellis

Asking Rental Rates
Year-End ($/SF/Yr. Triple Net)



Source: Grubb & Ellis

Tenant demand and the construction pipeline are both at their lowest point in a decade. As a result, vacancy will hover at its current rate for the next 18 to 24 months.

The construction pipeline was virtually emptied in 2009, as projects planned years ago came to fruition. The steep decline in demand, coupled with challenging regional development policies, will keep construction completion figures low well into the coming year.

Industrial projects suffered a net loss of occupied space marketwide and across all property types during the year, illustrating that no submarket was immune to the decrease in demand for production, distribution or logistics facilities. In addition, no single property type remained unaffected by the economic fall-out created by job losses and the reduction in consumer spending. Negative net absorption was posted equally across virtually all submarkets and property types.

Several new tenants did set up shop in the region during the year, the most controversial being Nestlé Waters, which occupied 200,000 square feet in the Power Inn submarket during the third quarter. Nestlé Waters was ill-received by some critics who believed the plant would draw from the city's water supply without adequate remuneration. The company's management met the rumors head-on via local news sources. The facility will ultimately house 40 full-time jobs. Jarden Home Brands, a consumer products conglomerate, occupied an additional 180,000 square feet in the Power Inn submarket. However, even in that submarket, net losses in occupancy could not be overcome.

The politics and policies surrounding regional flood plains and their future planning continue to elicit heated and passionate arguments on both sides of the issue. As a result of recently enacted legislation, developers will have to overcome significant hurdles for projects in West Sacramento and Natomas submarkets when they do decide to initiate construction, again.

Asking rents remained stable through most of 2009, though contract and effective rents on comparables trended downward most of the year. Leasing volume was down considerably. Small to mid-size buildings with yards, extremely scarce in 2008, could barely be given away in 2009, as smaller users evaporated from the tenant pool.

Submarkets offering targeted, niche amenities and landlords offering the greatest concessions and values will receive the most interest in 2010. Heated competition among landlords is expected to carry on.

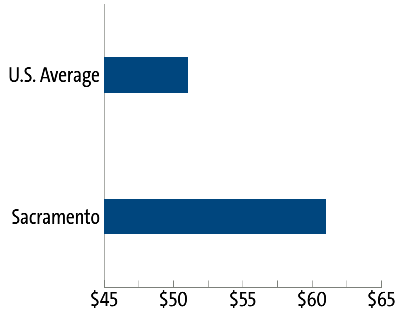
Key Leasing Transactions
2009

Lessee	Lessor	Property	Submarket	Size (SF)
Nestlé Waters North America, Inc.	Buzz Oates	8670 Younger Creek Drive	Power Inn	214,000
Jarden Home Brands	STS Real Estate	8151 Fruitridge Road	Power Inn	183,000
Agilent	John E. Miller	10050 Foothills Boulevard R	Roseville/Rocklin	182,000
E & E Trading Co.	ING Clarion Partners	1685 E. Tide Court	Davis/Woodland	151,000
Sacramento RV Indoor Storage	Amir Development Co.	819 N. 10th Street	Downtown	113,000

(R) = Renewal
Source: Grubb & Ellis

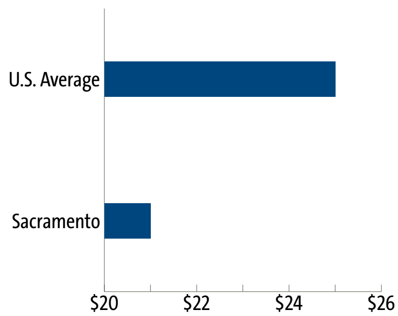
Sacramento
Retail

Median Household Income
2009 (in Thousands)



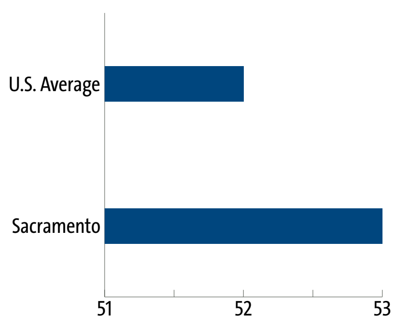
Source: Claritas

Typical Rent
In-line Shop Space, 2009 ($/SF/Yr. Triple Net)



Source: Grubb & Ellis

Retail Square Feet Per Capita
2009



Source: CoStar, Claritas, Grubb & Ellis

Tenants Expanding or Downsizing
2009

New to Market	Downsizing
Kohl's [Exp]	Anchor Blue
Pinkberry Yogurt	Ritz Camera
Henry's Farmers Markets	Starbucks
Sprouts Farmers Market	Whitehall Jewelers
Ultimate Electronics	Z Gallerie

(Exp) = expansion within region
Source: Grubb & Ellis

While several economic indices showed positive movement during the last quarter, the power of the almighty consumer has yet to be seen.

While Gross Domestic Product was up, albeit slightly, during the last quarter of the year, consumer spending was not. In fact, consumer confidence and spending are both at their lowest levels in decades. While several different government stimulus efforts had temporary effects on spending over the last 18 months, none seemed to perpetuate any impact on consumer spending beyond the month in which they were delivered. Neither tax rebates in 2008, nor the "Cash for Clunkers" program in 2009, had any lasting effect on widespread personal spending.

The depth and duration of the local housing plunge extracted a hefty toll from the local retail market as consumers drastically reduced their spending. Furthermore, the sheer number of untested retailers found in the suburban epicenters of the local housing bust would have been impossible to sustain through any economic downturn.

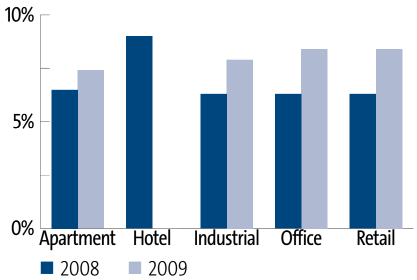
Holiday spending, upon which some retailers depend for the bulk of their annual sales, was unremarkable for the second year in a row. Both genuine and perceived credit shortages had a palpable and chilling effect on consumer spending. Adding to this, recently enacted legislation designed to protect credit card holders from credit card issuers actually fortified the feeling among consumers that credit card spending should be avoided. In other words, it did not compel consumers to part with their cash as originally intended.

The media was not kind to retail in 2009. The most notable stories included the soap-opera-like saga of General Growth Properties' cessation of work at the Elk Grove Promenade and the effect it had on investors. Also featured: the demise of Circuit City, nationally; Mervyn's and Gottschalk's, regionally; and, T.G.I. Fridays restaurants, locally. Numerous stories appeared featuring local news anchors standing outside of chain-link fences surrounding vacant shopping centers. Vacancy crested at the 10 percent mark in 2009, the highest figure on record since the early 1990s.

The silver to be gleaned from this retail cloudscape: several retailers announced plans to relocate/expand to the region or did so already; small niche or specialty shops, which were considered too risky in the previous landlord's market, have been able to secure shop space in which to operate; The Palladio at Folsom is still attracting tenants as is The Fountains at Roseville; and, second-hand and discount stores are also thriving and reducing regional vacancy while doing so.

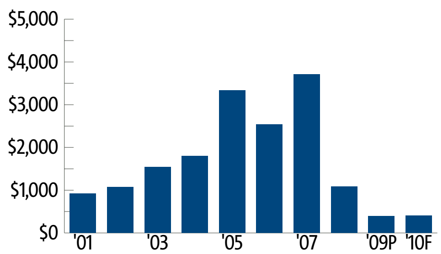
While asking rents have not declined dramatically, effective rents have. As landlords have clung to proforma income statements, concessions have lowered effective rates by as much as 25 percent during the year, depending on the submarket.

Average Capitalization Rates
Closed Sales



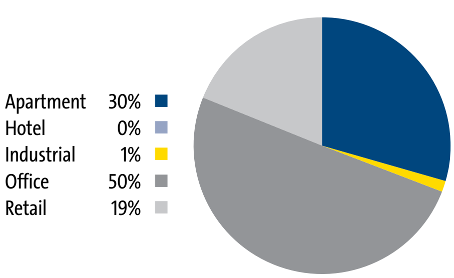
Source: Real Capital Analytics, Grubb & Ellis

Property Sales Volume
(in Millions)



Source: Real Capital Analytics, Grubb & Ellis

Sales by Property Type
2009



Source: Real Capital Analytics

The bright side: compared to 2008 and 2009, and fueled by a decreasing buyer-seller expectation gap, investment volumes have nowhere to go but up.

Investors faced a number of challenges in 2009. Availability of quality product; availability of financing; even the availability of relevant comparables data has become an issue in many negotiations. The result — deals take longer to complete and suffer multiple iterations prior to closing. While some bemoan this "new normal," contrarian investors, vulture fund managers and cash-flush private investors relish the opportunities presented. Everyone, however, agrees that the commercial market has yet to confront the potentially greatest threat brought about by the recession; namely, commercial defaults and foreclosures.

As measured by sales volume and favorable capitalization rates, the recovery of the investment market depends, in short, on a rebound in leasing and a strengthening of the fundamentals that make commercial real estate investments attractive: low vacancy rates, high rental rates and positive cash flow. All of which are dependent on a recovery in the labor market as verified by prolonged period of job growth, which is not forecast in the region for the coming year. Once these fundamentals do regain their sanguinity, however, the question than becomes whether or not financing is available to meet the demand.

The relevant issues de jour in the investment market are all interrelated: the specter of capital calls, lack of debt capital to refinance maturing loans, and the resulting pool of equity capital available for investment in distressed assets, and the strength of the commercial mortgage-backed securities market. A particularly salient issue in 2010 is the question of commercial defaults/foreclosures and the viability of both borrowers and lenders. While it has been suggested that the federal government might extend the Term Asset-Backed Loan Facility program for at least one more year, providing some relief to qualified borrowers, it offers no protection to the local and regional banks which ultimately shoulder a higher ratio of commercial loans versus the assets on their books. Furthermore, unlike the national banks who received billions in federal bail-out money, these local and regional banks may be allowed to fail, as evidenced by the 120-plus local and regional banks which failed in 2009, 13 of which were headquartered in the state of California. Some lenders estimate that up to 20 percent of the region's commercial loans may be defaulted on in the next three years. Local lenders, therefore, are truly at risk. The mantra "extend and pretend" has thus emerged in the market.

Current sales prices are generally being quoted at "below replacement cost." Cap rates range from 8 to 9 percent on closed transactions, of which there were roughly 30 in 2009.

Key Investment Transactions
2009

Buyer	Seller	Property Type	Property Name	Size (SF)	Sale Price (Millions)
IMS Associates, LLC	Kais, LLC	Office	2155 Iron Point Rd, Folsom	121,000	$38,150
General Electric Credit Equities	Butler Burgher Group, LLC	Retail	Stonelake Landing, Elk Grove	71,000	$23,300
Worthington California Investments, LLC	CN Goethe, LLC	Office	10000 Goethe Rd., Sacramento	126,000	$20,000
2219 Rocky Ridge, LLC	Forster Family Trust	Office	1420 Rocky Ridge Rd, Roseville	97,000	$16,300
Castlerock	PK Sale, LLC	Retail	Laguna Village, Sacramento	121,000	$14,100

Source: Grubb & Ellis

Sacramento
Land

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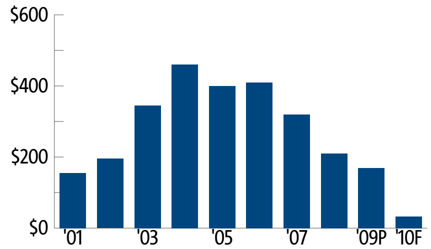
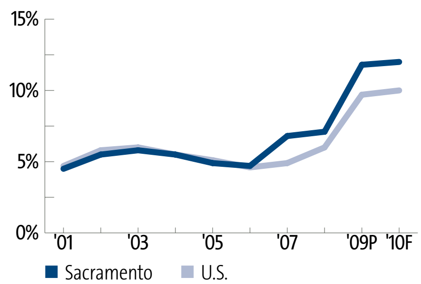
Land Sales Volume
(in Millions)



Source: Claritas

Civilian Unemployment Rate
Sacramento MSA vs. U.S. as of February 2010



Source: Grubb & Ellis, BLS

It's just the bust before the next boom.

Three years ago, virtually every developer, analyst and reporter was making a statement analogizing the region's land market to the Great California Gold Rush. In the last 24 months, several residential developers have closed operations entirely and others have scaled back by postponing releases on multi-phased projects. It is safe to say the posture of all developers, both residential and commercial, has changed dramatically over the last two years. The opportunities to be realized in this region's land market still abound, however, for those positioned to take advantage of them. Indeed, the next great land rush may well have begun.

The region appears to have reached the bottom of the housing bust. Price discovery and the floor of the market were achieved by mid-2009. The only individuals currently selling homes are those without a choice. All things considered, the average price of a new home will likely drop below $300,000 by the end of 2010, down from an average of almost $450,000 in 2005. Prices on existing homes will also be significantly lower and could drop to a median of roughly $125,000 by the end of 2010, down from a high of $375,000 in 2005.

At these rates, however, the region can expect to see some positives trends begin to emerge. For one, the anticipated residential prices represent an 80 percent affordability ratio, meaning that 80 percent of the households in the region will be able to afford a median priced home. In 2005, the region's affordability ratio was 30 percent. The region is expected to begin attracting migrating families and singles once again, the bright and talented labor pool employers look for, who will no longer be priced out of the market. Employers will follow suit. Commensurately, regional inventory will need to increase to accommodate buyers, leading to the need for new development. The cycle repeats and demand for new housing is rekindled.

Several of the roughly 15,000 finished lots in the region traded hands at deep discounts in 2009. One Folsom multi-development project was purchased for 25 percent of the total value of the note. Sale of existing existing homes within the development will cover the purchase making the sale of the remaining lots pure profit. Similar deals have been achieved by developers in Placer and El Dorado counties. It should be noted, Sacramento proper stands to lose market share to the surrounding areas due to the Natomas development moratorium.

Homebuyers will return to the market in significantly greater volumes in the next 18 to 24 months. At this point, land buyers now are positioned to see a very healthy return on their investments.

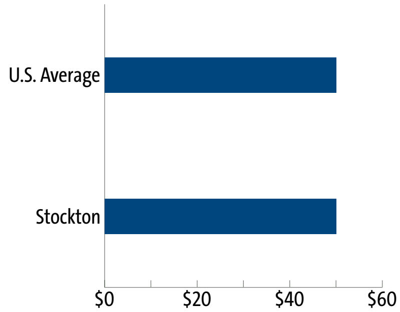
Key Land Sales Transactions
2009

Buyer	Seller	Property	Size (Acres)	Price (millions)
Lennar Homes	City National Bank	9391-9395 Gerber Rd.	124	$13,400
Gibson Ranch, LLC	Elverta Owners Group, LLC	8329 16th Street, Elverta	79.75	$7,900
Tim Lewis Communities	Dunmore Homes	Croftwood	83	$4,800
AKT Investments, Inc.	North Natomas 575 Investors, LLC	3900 W Elkhorn Blvd.	584.97	$7,600
Meritage Homes Corp.	Signature Properties	Fiddyment Ranch, Village 5	13	$2,420

Source: Grubb & Ellis

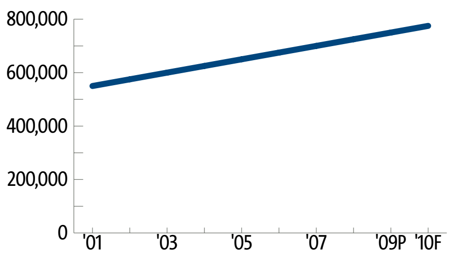
Stockton Economic Overview

Median Household Income
2009 (in Thousands)



Source: Claritas

San Joaquin County Population
(in Thousands)



Source: Grubb & Ellis

While the San Joaquin residential market has suffered, the region's economic development leaders have used the downturn to focus attention on tenant/business retention and expansion.

San Joaquin County's business and professional services economy has been hard-hit by the recession. Very little development is currently planned for the coming year. With that in mind, San Joaquin's business leaders are now focused on reaching out to several specific target industries—alternative energy/technology, medical manufacturing, software technology and light manufacturing—which have a history of performance in the region or whose business needs can be well served by a regional location.

All is relatively quiet within the office and hospitality sectors. The Lexington Hotel, built by Sheraton Hotels for $62 million in 2007, was offered for $19 million at auction in September and is now being operated by a receiver for the construction financier. While numerous homebuilders have gone out of business, taking several mortgage, title and other residential-associated businesses with them.

The industrial sector, however, has silently endured, providing logistics and high-cube manufacturing space to hundreds of food service and agrarian support companies. While leasing and development slowed to a crawl, or stopped, throughout most of the state, speculative construction of a few big-box industrial facilities in the Stockton market was completed in 2009. Some build-to-suit development, is also still occurring. Development at the Air Metro Business Park is underway and several of the buildings in the airport business park are now complete. Retail completions include an outlet mall in Manteca, also in San Joaquin County.

At upwards of 15 percent at the close of 2009, San Joaquin County has one of the highest unemployment rates in the state and is 500 basis points higher than the national rate. Personal bankruptcies and residential foreclosures have rocked the region. The city of Stockton, in a move to funnel jobs to residents, who suffer under the high unemployment rate, now requires that at least 50 percent of the employees/contractors on publicly funded projects live in the Stockton city limits. This has not endeared the city council to other regional economic development entities who decry the tactic as protectionist.

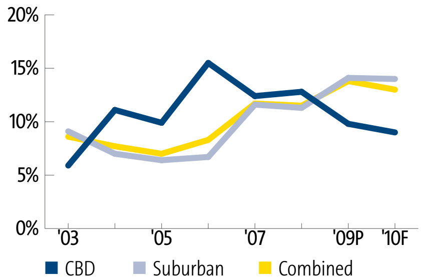
While property values throughout the nation have suffered since 2007, none were harder hit than the Central Valley's. Commercial real estate development will continue to lag in the coming year. However, direct access to the two primary north-south highways in the state, freight movement via two national rail lines and the facilities at the Port of Stockton — the second busiest inland port on the West Coast, handling more than 4 million tons of cargo last year and indirectly and directly supporting more than 4,500 regional jobs — will bolster Stockton's industrial viability.

Largest Private Employers in
San Joaquin County

Company	City	Industry
St Josephs Medical Center	Stockton	Healthcare
Summit Logistics	Tracy	Food Logistics
Dameron Hospital Association	Stockton	Healthcare
Pacific Gas and Electric	Stockton	Utility Company
Lodi Memorial Hospital	Lodi	Healthcare

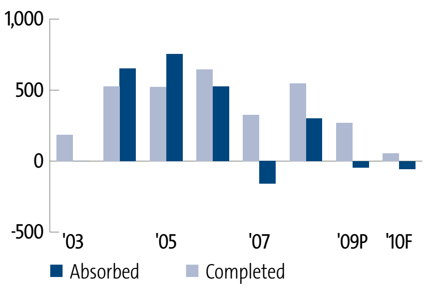
Source: Grubb & Ellis

Vacancy Rate
Year-End



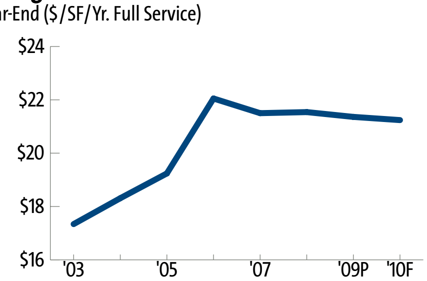
Source: Grubb & Ellis|Pearson Commercial

Completions vs. Absorption
Year-End (In Thousands of SF)



Source: Grubb & Ellis|Pearson Commercial

Asking Rental Rates
Year-End ($/SF/Yr. Full Service)



Source: Grubb & Ellis|Pearson Commercial

Although prognosticators continue to predict that the worst is yet to come for commercial real estate, there has been an uptick in activity in the Fresno office market late in 2009.

This uptick was not reflected in the vacancy rate which increased slightly over the year, but activity in the leasing market has increased with tenants beginning to acclimate to the tough economic conditions. Though it continues to be a tenant dominated market.

The overbuilt office market, coupled with approximately 160,000 square feet of sublease space, will be problematic until the excess space is absorbed. With this in mind, vacancy rates are expected to begin a slow decline over the next few quarters, but there will be no meaningful reductions until late 2010.

In the sales arena, a weak U.S. dollar makes properties more attractive to foreign investors. A little inflation, as long as it is kept in check, could benefit the market, which would allow commercial real estate to once again take on its historic role as an inflation hedge. Over the past several months, capitalization rates have increased in the range of 2 to 3 percent, which has lowered values for investment real estate substantially.

Leasing activity during the coming year should increase due to the stabilizing economy, the amount of available space and concessions within the market. During the fourth quarter of 2009, the market experienced a moderate uptick in tenant interest in relocating, due to the concessions and readily available space. As tenants become aware of other below market deals being signed, it provides a sense of urgency within the marketplace. This sense of urgency can be expected to influence tenants that have been sitting on the sidelines waiting for the best time to make the decision to relocate. During 2009, landlords and tenants showed a lot of indecision and complacency. As office space is leased, tenants will feel the need to move quickly to take advantage of the shrinking market opportunities. As vacancies diminish, so will the available concessions. The tenant that decides to move early in the year will have a better opportunity to capitalize on the current market conditions. Later in the year, there will be a modest shift from a "tenant's market" to more typical give and take negotiating.

The investment market should see a modest increase in activity due to owners being forced to sell as a result of refinancing constraints and loss of income stream. This will have a negative effect on pricing throughout the year, but will probably lead to an increase in transactions. There will also be more Real Estate Owned properties hitting the market. During 2009, a few bank owned properties entered the marketplace. In 2010 there should be an abundance of these types of properties, which will provide numerous opportunities for the value-added investor.

Key Leasing Transactions
2009

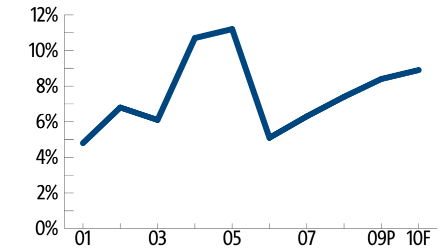
Lessee	Lessor	Property	Submarket	Size (SF)
Bank of America N.A.	te Velde Investments LP	Bank of America Call Center*	Northwest	54,600
Jones Helsey PC	Lance-Kashian & Co.	Village Courtyard at River Park *	Woodward	12,400
Virginia Hotel	Virginia Kern, LLC	Fresno Area Workforce Investment Corporation *	Downtown	9,900
Gilmore, Wood, Vinnard & Magness, P.C.	State Compensation and Insurance Fund	State Compensation *	Woodward	8,400
Employers Compensation Insurance	Tremonte Properties	Woodward Centre*	Woodward	5,800

* Indicates Transaction Represented by Grubb & Ellis|Pearson Commercial

Source: Grubb & Ellis|Pearson Commercial

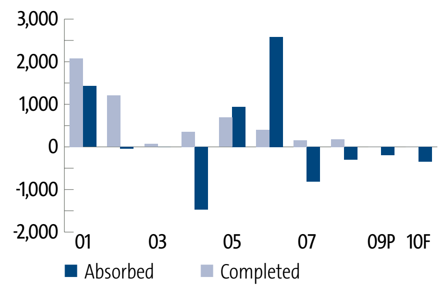
Fresno
Industrial

Vacancy Rate
All Product Types, Year-End



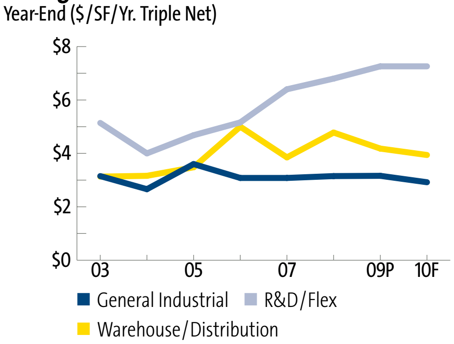
Source: Grubb & Ellis|Pearson Commercial

Completions vs. Absorption
All Product Types, Year-End (In Thousands of SF)



Source: Grubb & Ellis|Pearson Commercial

Asking Rental Rates
Year-End ($/SF/Yr. Triple Net)



Source: Grubb & Ellis|Pearson Commercial

All segments of the Fresno industrial market experienced transaction volume and value decreases, as most sectors of the region's economy shrank or stagnated.

Fresno's industrial market experienced a dramatic drop in the volume of leasing and sales transactions during 2009, in response to the challenging economic climate. Additionally, the state of California's precarious economic situation exacerbated the challenges of dealing with what has turned into the deepest recession since the Great Depression.

The region's industrial base rests on a foundation of light industrial and service-oriented businesses, companies working in and with all segments of the agricultural supply and production chain, and corporations warehousing a variety of products. As economic conditions became increasingly unstable in 2009, local business owners, as well as large companies, elected to delay or cancel expansions and relocations, close their local facilities, or go out of business altogether.

Consequently, the vacancy rate increased and effective rents decreased. Furthermore, sales of all types of industrial buildings became more difficult as sellers and buyers struggled to agree on a dollar value, and banks tightened their credit standards.

Looking forward to 2010, the leasing market will continue to struggle as more properties become available and demand fails to increase enough to absorb the supply. As the vacancy rate climbs, landlords will aggressively attract new tenants with incentives. Conversely, tenants will perceive this as a window of opportunity to renegotiate existing leases or reduce their rent upon expiration. Additionally, space available for sublease will become more prevalent and compete with blocks of direct space, which will encourage businesses to take advantage of discounted lease rates to minimize their financial exposure.

Industrial sales should increase now that the worst of the credit crisis has passed and most sellers have adjusted their expectations. As more product becomes available, properly priced assets will trade in a more rapid manner. Overpriced properties will see little activity with these property owners chasing the market downward. A positive outcome of the ongoing re-pricing is that qualified buyers will be able to purchase quality buildings at very favorable prices. Aside from distressed sales, prices are unlikely to drop more than the 30 percent across the board, as some have predicted.

A contributing factor to the stability of the market has been the constraint shown by developers for new construction projects. Other than small free-standing warehouses, no mid-size or large buildings were speculatively built for sale, and only a few were built for lease, during the past five years. No buildings are under construction nor planned to be delivered in 2010, allowing the existing inventory to be absorbed without a tide of new product coming to market.

With one of the state's fastest growth rates, an abundant and relatively inexpensive labor pool and ample land for new development, the Fresno market is well-positioned to rebound as the economy begins to recover.

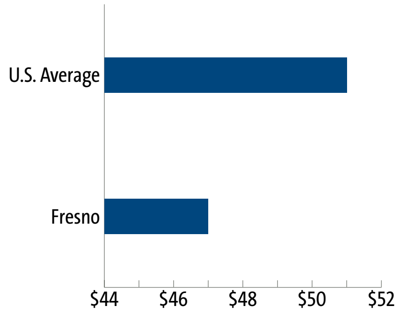
Key Leasing Transactions
2009

Lessee	Lessor	Property	Submarket	Size (SF)
Dairy America	Ray-O-Vac	811 N. Kelsey	Visalia	236,000
CMEC	South Madera Ave	1401 S. Madera Ave	Kerman	162,000
Women's Distribution Services	Cobb Trust	3744 E. Wawona Ave	Fresno - SE	38,000
Keystone Automotive	Denken Farms	*North Pointe Business Park, Bld 2	Fresno - SE	32,000
Whitehouse Custom	Denken Farms	*North Pointe Business Park, Bld 21	Fresno - SE	27,500

Source: Grubb & Ellis|Pearson Commercial

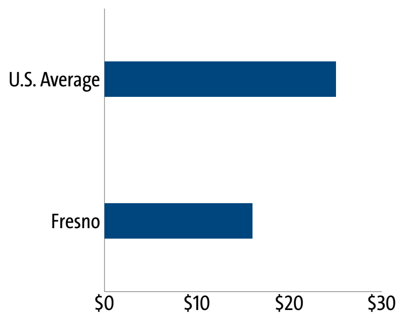
Fresno
Retail

Median Household Income
2009 (in Thousands)



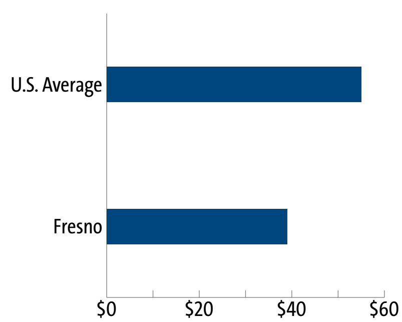
Source: Claritas

Typical Rent
In-line Shop Space, 2009 ($/SF/Mo. Triple Net)



Source: Grubb & Ellis|Pearson Commercial

Retail Square Feet Per Capita
2010



Source: CoStar, Claritas, Grubb & Ellis|Pearson Commercial

Tenants Expanding or Downsizing
2010

New to Market	Downsizing
Macy's	Gottschalk's
Buffalo Bar and Grill	
Panera Bread	
CVS Pharmacy	
Ashley's Furniture	

Source: Grubb & Ellis|Pearson Commercial

Well into the Fresno commercial slow down and nationwide recession, local market realities have hit home for both retailers and landlords.

The active participation of both landlords and tenants to work together, through the ebbing consumer demand, has brought about a unified front aimed at combating the closures and losses seen in other markets, helping the Fresno market maintain a vacancy rate slightly higher than what was seen at the height of the market. After struggling to understand consumer behavior in the "new economy" of austerity, coupon clipping and reduced conspicuous spending, both landlords and tenants seem to have found a new "normal" and are coping with the sudden reversal of fortune and adjusting to the diminished daily retail sales volume. The only wild card left in the equation is the lenders.

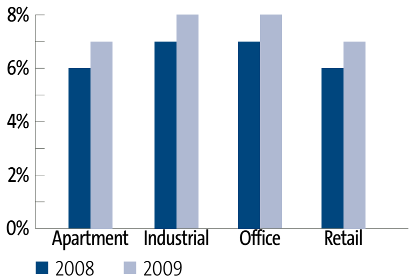
A group of contrarian retailers and local entrepreneurs are ambitiously betting that this recession will be short-lived and that the market is only up from here. The bright side of this trend has resulted in a flurry of activity for the business community, and landlords have been able to make deals. On the downside, absorption has mainly been for sublease, not direct space. Those locations that have seen significant activity hold a certain amount of intrinsic value. They are usually built-out spaces such as hair or nail salons, restaurants and sandwich shops.

Market troubles will continue throughout 2010, as the broader economy looks to strengthen and the newly unemployed search to find jobs. In-line stores will come and go and will not be replaced as quickly as in previous years. Yet there is reason to be optimistic as new retailers continue to enter the market or expand their existing base. Though easily overlooked by the negative market news, the seeds of recovery have already taken root in Fresno. Some examples are Macy's recent opening in the former Gottschalk's flagship store in River Park, an Ashley Furniture planned opening, Buffalo Bar and Grill securing sites, Panera Bread opening its first Fresno location and CVS making its market debut. In addition, the first phase of the much anticipated and long overdue entertainment and lifestyle center, University Village Center at Fresno State, will be coming out of the ground in 2010.

The market does hold a silver lining. Landlords willing to address a prospective tenant's needs have been able to maintain stable tenant rosters despite challenging market conditions. Maintaining a center's core tenants, seasoned retailers and an attractive tenant mix will enable both parties to best stay in the game.

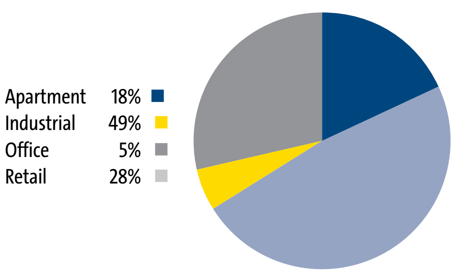
GRUBB & ELLIS
From Insight to Results

Average Capitalization Rates, Fresno
Closed Sales



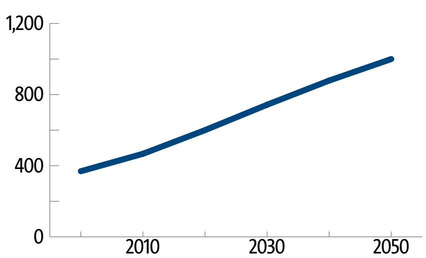
Source: Real Capital Analytics

Sales by Property Type, Fresno
2009



Source: Real Capital Analytics

Population Growth, Tulare County



Source: California Dept. of Finance

Fresno Investment

Skeptical that the market has hit bottom, investors are still hesitant to buy.

Commercial real estate prices have dropped over 30 percent from a year ago, and 40 percent compared to 2007. Current property values have been depressed to pre-2004 values. Banks are very reluctant to finance investments when their loan-to-value may decline with the market. Investors with 1031 exchange money or cash in hand seem to be the only ones able to acquire commercial properties these days. With tighter lending standards, loan-to-value ratios are lower today.

Performing assets are the primary commercial property type that lenders will finance in today's market. Investors will need to confirm property cash flow, prior to seeking financing. Due to the uncertain valuations, based on declining net operating income, few transactions are taking place. This will continue into 2010 and possibly 2011.

With declining commercial real estate prices, the number of distressed asset sales will increase, and this trend will accelerate in 2010 as banks become more aggressive in addressing troubled commercial real estate loans. Investors have remained on the sidelines, waiting to capitalize on forced sales.

Apartment vacancy rates are rising, and rental rates are slightly lower than past years. The current average monthly rent in Fresno is approximately $800 for a two bedroom, one bathroom apartment, down from a year ago and landlords have lowered rents to keep tenants. Reported occupancy rates are now approximately 93 percent, down from 95 percent a year ago.

Tulare County Economic Overview

Tulare County is the largest producer of milk in the nation, maintains over $4 billion in agricultural value and is home to 1-million-square-foot distribution centers.

Located in the fertile San Joaquin Valley, with Los Angeles 200 miles to the south and the Bay Area 225 miles to the north, Tulare County offers excellent access to the California and West Coast markets. UPS has overnight delivery from the Visalia Hub to 98 percent of California, making it attractive to businesses seeking proximity to a population of 426,000 in the county and 3.4 million in the great Central California region; food processors and related businesses who want to be close to their raw material and labor, land and building costs that are lower than in Northern or Southern California.

The following companies have large distribution centers in the area: Jo-Ann Fabrics (650,000 square feet), VF Distribution (800,000 square feet), Wal-Mart (1 million square feet) and Best Buy Electronics (1 million square feet). The Visalia and Tulare industrial inventory consists of over 14.1 million square feet with a vacancy rate of 11 percent. Asking rental rates range from $0.15 per square foot to $0.28 per square foot triple net. Parts of Tulare County will soon be included in an Enterprise Zone. The benefits that are included: tax and hiring credits, business expense deduction and net operating loss carryover. A new Macy's recently opened in Visalia, and one of the newest outlet malls in California is located in Tulare.

Company Profile

GRUBB & ELLIS
From Insight to Results

Grubb & Ellis was named to the International Association of Outsourcing Professionals' 2009 *Global Outsourcing 100™*.

Transaction Services

- Agency leasing
- Tenant representation
- Consulting services
- Valuation consulting
- Retail services
- Institutional investment services
- Private capital investment services
- Site selection

Management Services

- Property management
- Facility management
- Asset management
- Business and fulfillment services
- Consulting services
- Project/construction management
- Engineering services

Overview

Headquartered in Santa Ana, Calif., Grubb & Ellis Company (NYSE: GBE) was founded in 1958. Over the last half century, the company has grown from a single office in San Francisco into one of the largest and most respected commercial real estate services and investment firms in the world. Its 6,400 professionals in approximately 130 company-owned and affiliate offices draw from a unique platform of real estate services, investment products and specialty practice groups to deliver integrated solutions to real estate owners, tenants and investors. The solutions Grubb & Ellis delivers to its clients are supported by proprietary market research and extensive local expertise.

From Fortune 500 multinational companies, institutional investors and government agencies to small and mid-sized businesses and individual investors, clients look to Grubb & Ellis for real estate solutions that meet their business objectives. Whether it is selecting a location to do business, improving a property or portfolio's operating efficiency, increasing occupancy or otherwise maximizing the return on an investment, we can help. Our practice groups bring together professionals who have experience with particular property types and specific industries, seeking to ensure clients' needs are clearly understood and the most effective solutions are implemented.

Through its real estate investment and asset management subsidiaries, Grubb & Ellis is a leading sponsor of a full range of commercial real estate investment programs, including public non-traded real estate investment trusts (REITs), mutual funds, tenant-in-common programs for investors structuring tax-deferred (like-kind) exchanges under Section 1031 of the Internal Revenue Code and various institutional investments. Through the Grubb & Ellis Private Client Management program, Grubb & Ellis also offers institutional and high net-worth investors a comprehensive program to build or expand their commercial real estate portfolio, whether their objectives are 1031 exchange-driven or not. One of the nation's most active buyers and sellers of commercial real estate, Grubb & Ellis' investment arm has completed acquisition and disposition volume totaling more than $12.2 billion on behalf of program investments since its founding in 1998; in excess of $9.3 billion of this volume has been transacted since 2005.

This is neither an offer to sell nor a solicitation of an offer to buy any security. Such an offer may be made only by means of an offering document. Investors should read the offering materials and review the risks associated with any offering prior to making an investment and should be able to afford the loss of their entire investment. Securities offered through Grubb & Ellis Securities, Inc. member FINRA/SIPC.

GRUBB & ELLIS
From Insight to Results

Our experienced and knowledgeable professionals provide market insight and real estate solutions that help clients reach their business objectives.

Structured Around the Needs of Our Clients

Grubb & Ellis has the people, platform and best-in-class processes to deliver superior service whether a client needs help with a single property or multiple global facilities. Our comprehensive real estate solutions include transaction services, management services, corporate services and a wide range of investment programs.

Possessing one of the largest and most experienced real estate brokerage sales forces in the country, Grubb & Ellis' teams of specialists cover all aspects of commercial real estate and work closely with clients to assess the ways in which real estate issues relate to – and contribute to – an organization's strategic business objectives. Last year, Grubb & Ellis and its affiliates completed more than 15,000 brokerage transactions valued at more than $16 billion.

We deliver integrated property, facility and asset management services focused on cost-efficient operations, tenant retention and increasing property values to a host of corporate and institutional clients. In total, Grubb & Ellis and its affiliates manage a diverse portfolio of nearly 300 million square feet of space. This portfolio includes headquarters, facilities and Class A office space for major corporations, as well as industrial, manufacturing and warehouse facilities, data centers, retail properties, medical buildings and multifamily assets for real estate occupants and investors. Additionally, Grubb & Ellis provides consulting services that help clients better understand their real estate portfolio, the current operating environment, and future opportunities that exist through smart, strategic planning.

Why We're Unique

When selecting a commercial real estate firm, the most important consideration is how well the company understands your needs. Grubb & Ellis is known for working with clients, not just for them. We partner with clients to create long-term relationships that are built upon a commitment to their business objectives. In return, we have been recognized by our clients and others in the industry for our accomplishments. In 2008, Grubb & Ellis was honored with Microsoft Corporation's Environmental Award for our successful efforts to reduce the company's impact on the environment, and, in 2009, the company was included in the International Association of Outsourcing Professional's *Global Outsourcing 100™*. This commitment to continuous improvement and the development of programs and initiatives designed to meet a client's individual needs are the driving forces behind our more than 50 years of service excellence.

Corporate Services

- Consulting services
- Real property and lease administration
- Retail services
- Strategic planning
- Tenant representation
- Valuation services
- Site selection
- Project management
- Portfolio rationalization
- Disposition services

Investment Programs

- Public non-traded real estate investment trusts (REITs)
- Private client management
- Institutional investments
- Mutual funds
- 1031 tenant-in-common exchanges
- Securities separate accounts and funds

The direct or indirect purchase of real property involves significant risks. Investors should consult their own tax advisors and legal counsel. Always remember that each property is unique and past performance is no guarantee of future results.

Grubb & Ellis Research

GRUBB & ELLIS. From Insight to Results

Grubb & Ellis professionals know that the best real estate decisions begin with sound real estate data. That's why our highly respected research and analysis is integrated in all that we do.

In today's complex environment, you want to be sure you're making smart decisions when it comes to your real estate needs. There's little room for error when competition is fierce, margins are tight and organizations are trying to squeeze the most value out of their investments. Sound research helps ensure you are pursuing the most effective real estate strategies and evaluating the best possible solutions to achieve your business objectives.

This approach is nothing new for Grubb & Ellis. Research is part of our legacy, and we're known for delivering some of the highest quality research in the industry. We cover big-picture economic trends as well as specific drivers of local market demand for space. Our professionals regularly provide expert commentary to business organizations, government entities and the media on the forces shaping the commercial real estate landscape. We go beyond standard real estate statistics to explore how significant developments – such as the 2009 stimulus package or recent environmental legislation – may affect real estate owners, tenants and investors.

Our comprehensive insights are based on:

- Our professional research managers and their staff, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb & Ellis pioneered the concept of hiring professional research managers to direct the company's research function. Analysts and brokers are trained to understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle.
- Our systems used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was one of the first in the industry to use computerized market research and analysis and continues to make investments to improve and enhance the information available. In addition to subscribing to the top property databases, Grubb & Ellis maintains a proprietary, centralized Web-resident data warehouse to track its property-specific data – including property details, images, available space, leasing and sales comparables and tenant information. This sophisticated system is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- Our reports and publications through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly Market Trends reports that analyze local and national market conditions by product type, a Weekly Market Insight electronic communication on a timely economic or real estate-related topic, a biannual Logistics Market Trends report and white papers on issues that are important to our clients.
- Our real estate professionals and extensive network of specialty practices, whose familiarity with the people and the property in their submarkets and unique industry segments yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams, brokerage sales professionals, practice groups and investment specialists.

Our strong research platform combined with the knowledge and expertise of our professionals enables us to deliver integrated solutions to our clients – from market to market and around the globe. It is a proven tool that forms the foundation of all the services we provide, allowing us to uncover opportunities when they may not be easily visible. And it's what gives Grubb & Ellis and our clients a competitive advantage in the marketplace.

We'd be happy to discuss the findings in this year's forecast or any of our publications. To keep abreast of research disseminated by Grubb & Ellis, please visit www.grubb-ellis.com/research.

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Grubb & Ellis research teams across the U.S. work together to ensure our clients have the most up-to-date market knowledge.

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California Retail Survey, Claritas, CoStar Group, The Gregory Group, *IREN*, The Meyers Group, Real Capital Analytics, REIS, SACOG, SACTO, *The Sacramento Business Journal*, San Joaquin Partnership, SRRI, State of California, California Employment Development Department, U.S. Census Bureau of Labor Statistics

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Named to *The Global Outsourcing 100*™ in 2009 by the International Association of Outsourcing Professionals™, Grubb & Ellis Company (NYSE: GBE) is one of the largest and most respected commercial real estate services and investment companies in the world. Our 6,400 professionals in more than 130 company-owned and affiliate offices draw from a unique platform of real estate services, practice groups and investment products to deliver comprehensive, integrated solutions to real estate owners, tenants and investors. The firm's transaction, management, consulting and investment services are supported by highly regarded proprietary market research and extensive local expertise. Through its investment subsidiaries, the company is a leading sponsor of real estate investment programs that provide individuals and institutions the opportunity to invest in a broad range of real estate investment vehicles, including public non-traded real estate investment trusts (REITs), tenant-in-common (TIC) investments suitable for tax-deferred 1031 exchanges, mutual funds and other real estate investment funds. For more information, visit **www.grubb-ellis.com.**

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